




Canada, External Relations, Standing
Committee on (Senate), 1959

Proceedings of the Standing Committee on
External Relations on Bill (C-52), intituled:
"An Act to amend the Bretton Woods
Agreements Act." Friday June 19th, 1959

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24th Parl, 2nd Sess.
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Committee on (Senate), 1959
Second Session—Twenty-fourth Parliament

1959

Government
Publications

THE SENATE OF CANADA



PROCEEDINGS

OF THE

STANDING COMMITTEE ON

EXTERNAL RELATIONS

on Bill (C-52), intituled: "An Act to amend the Bretton Woods
Agreements Act."

FRIDAY, JUNE 19th, 1959

The Honourable G. S. THORVALDSON, *Chairman*

WITNESSES:

Mr. Rodney Grey, Chief of Economic I Division, Department of External
Affairs;

Mr. A. F. W. Plumptre, Assistant Deputy Minister of Finance.

APPENDIX

Equipment Exported by Canadian firms under World Bank Financing.

REPORT OF THE COMMITTEE

THE QUEEN'S PRINTER AND CONTROLLER OF ST.
OTTAWA, 1959

THE STANDING COMMITTEE ON
EXTERNAL RELATIONS

The Honourable G. S. Thorvaldson, Chairman

The Honourable Senators

* Aseltine	Haig	Monette
Beaubien	Hardy	Robertson
Boucher	Hayden	Savoie
Bradette	Horner	Taylor (<i>Norfolk</i>)
Bradley	Howard	Thorvaldson
Crerar	Hugessen	Turgeon
Croll	Jodoin	Vaillancourt
Farquhar	Lambert	Veniot
Farris	Lefrançois	Vien
Fergusson	MacDonald	Wall
Fournier	* Macdonald	White
Gouin	McLean	Wilson—35

(Quorum 7)

* *ex officio* member.

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate for Tuesday, June 16, 1959.

"Pursuant to the Order of the Day, the Senate resumed the adjourned debate on the motion of the Honourable Senator Monette, seconded by the Honourable Senator MacDonald, for second reading of the Bill C-52, intituled: "An Act to amend the Bretton Woods Agreements Act".

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

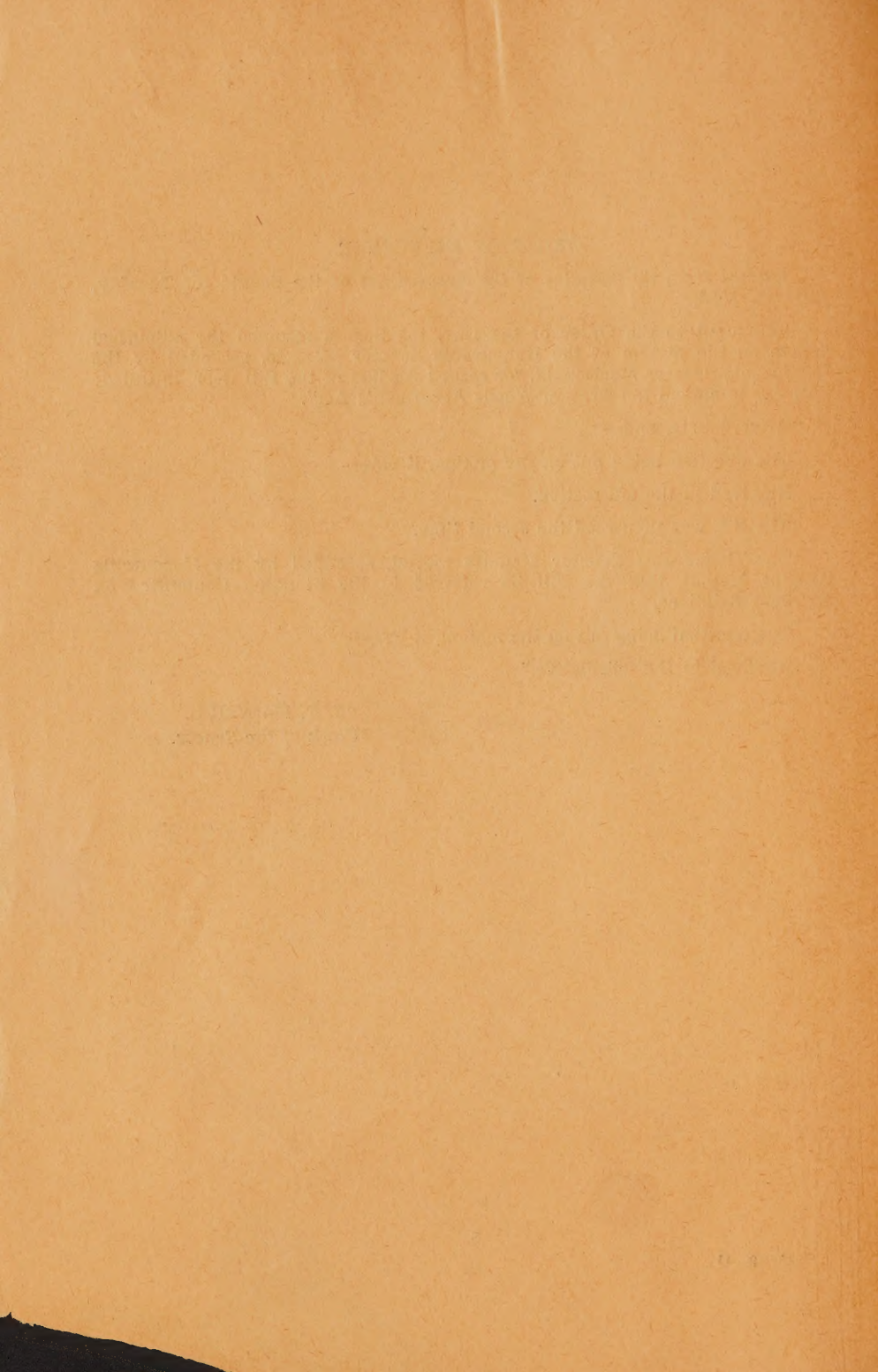
The Bill was then read the second time.

The Honourable Senator Monette moved, seconded by the Honourable Senator Methot, that the Bill be referred to the Standing Committee on External Relations.

The question being put on the motion, it was—

Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.



MINUTES OF PROCEEDINGS

FRIDAY, June 19, 1959

Pursuant to adjournment and notice the Standing Committee on External Relations met this day at 10.30 a.m.

Present: The Honourable Senators: Thorvaldson, *Chairman*; Aseltine, Beaubien, Bradette, Fergusson, Horner, Lambert, MacDonald, Turgeon and Wilson—10.

In attendance: Mr. E. Russell Hopkins, Law Clerk and Parliamentary Counsel. The Official Reporters of the Senate.

Bill C-52, an Act to amend the Bretton Woods Agreements Act, was read and considered.

Mr. Rodney Grey, Chief of Economic I Division, Department of External Affairs and Mr. A. F. W. Plumptre, Assistant Deputy Minister of Finance were heard in explanation of the Bill.

Also in attendance but not heard: Mr. E. Gallant, of the International Economic Relations Section, Department of Finance.

On motion of the Honourable Senator Aseltine, it was resolved to report recommending that authority be granted for the printing of 800 copies in English and 200 copies in French of the proceedings on the said Bill.

It was resolved to report the Bill without any amendment.

At 11.30 a.m. the Committee adjourned to the call of the Chairman.

Attest.

Gerard Lemire,
Clerk of the Committee.



THE SENATE

STANDING COMMITTEE ON EXTERNAL RELATIONS

EVIDENCE

OTTAWA, Friday, June 19, 1959.

The Standing Committee on External Relations, to which was referred Bill C-52, to amend the Bretton Woods Agreement Act, met this day at 10.30 a.m.

Senator Gunnar S. Thorvaldson in the Chair.

The CHAIRMAN: Honourable senators, we now have a quorum.

May we have the usual motion that authority be granted for the printing of 800 copies in English and 200 copies in French of our proceedings on this bill?

—Moved by Hon. Senator Horner, seconded by Hon. Senator Aseltine, and carried.

We have present with us Mr. Rodney Grey, Chief of Economic Division I, Department of External Affairs; Mr. A. W. Plumptre, Assistant Deputy Minister of Finance; and Mr. E. Gallant, International Economic Relations, Department of Finance.

With your approval I will ask Mr. Grey to give us information which he thinks we should have with regard to this bill.

MR. RODNEY GREY, Chief of Economic Division I, Department of External Affairs:

Mr. Chairman, I read the record of your discussion, and I take it you want from me a few indications of the importance of the Bretton Woods twins to our international economic relations; more detailed questions as to how these institutions operate might be directed to my colleagues from the Department of Finance.

I don't think there can be any question, sir, that these two institutions are to be seen not only as financial mechanisms, but as very important instruments for carrying out the international economic policies of Canada and the western countries with which it is associated.

I think they were born out of a profound conviction that the arrangements in these fields in the 1930's had not worked successfully; and out of a profound conviction that we need more than *ad hoc* arrangements and casual conferences. We need definite institutions to serve particular purposes. The Fund and the Bank ought to be regarded as international mechanisms to achieve certain purposes that have been agreed by national governments.

May I comment on the Fund first? The Fund ought to be regarded, I think, as a mechanization for consultation for countries to work out international exchange arrangements. The articles of agreement of the Fund constitute a code of international conduct on exchange matters; the articles of

agreement should also be regarded as a set of directions from national governments to this institution. This code is applied by the Fund through the device of consultation, through frequent meetings both at the level of officials from countries and at the level of ministers from countries.

Perhaps I might give examples of instances when the Fund has intervened in international economic affairs, which might be taken as evidence of the importance of the institution in our international economic policy. May I refer to one of the most important international events, the fact that a number of western European countries have taken steps towards making their currency fully convertible. I think it is accepted that those steps would not have been possible if the Fund had not come into the operation on a number of occasions and given very strong support, and helped mobilized support, for western European currencies. In particular, it came to the rescue of sterling at a very critical period in 1956; similarly, it came to the rescue of the franc in 1957. I do not think the events that we saw at the turn of the year when major Western European currencies became partially convertible would have been possible without the Fund's intervention at these earlier periods to give these currencies the necessary strength.

I might cite a more precise example: the North Atlantic Alliance would have been critically weakened had the Fund on occasion not come to the support of the currency of some of its members; I have in mind particularly the operation that has gone on over the past year to assist the Turkish Government to rationalize its foreign exchange system and to give it such support as is necessary. This sort of example could be multiplied many times, but I think those three examples I have given will show in what important ways the Fund is an instrument of the international economic policies of Canada and the countries with which it is associated: the support of the pound in 1956, the franc in 1958 and the comprehensive support to the Turkish authorities over the past year. The Fund has been the mechanism under which national agreements have got together to achieve these common purposes. I doubt if it would have been possible to reach such a degree of success in these particularly complicated operations without a very highly-developed international institution. There is a limit as to what can be done by *ad hoc* conferences and by bilateral discussions and unilateral decisions. The problems in these international fields are complex ones which require highly-developed instrumentalities to deal with.

If I might turn to the Bank, sir, the Bank's task might properly be defined as one of assisting the less well-developed countries to develop their own economies, so that their people will have some positive hope of receiving higher incomes in the future. Of course, this is not the only mechanism in this international field but it is one of the important ones. Other mechanisms which are part of the whole armoury of weapons used for carrying out this task include the Colombo Plan and the United Nations Technical Assistance Program, and the Special Fund. All these play an important part in the elaborate operation of mobilizing the resources of the more well-developed and wealthier countries to assist countries that are not so well developed.

I think you already have on record a fairly comprehensive discussion of how the Bank operates. I might merely comment on some of the particular ways the Bank has intervened as a mechanism of our international economic relations, and as an instrument of our economic policy. One example which is of the most pressing importance at the moment is the Bank's intervention in the Indus waters dispute. No doubt your committee has followed the dispute between India and Pakistan about the use of certain waters of the Indus Basin.

To solve these problems for the two countries it is necessary to mobilize certain funds; the Bank has acted not only as a go-between between the two governments, but the Bank's good offices have been used to promote a settlement. This is a matter still under discussion.

Senator HORNER: What about the difficulty concerning fishing rights off the waters of Iceland?

Mr. GREY: I do not think this is a matter in which the Bank has intervened.

The CHAIRMAN: No, I do not think so.

Senator REID: I understand there is a feeling that Canada may well be blamed for what might be regarded as a political situation between India and Pakistan. I am told that there is great danger of Canada becoming so involved.

Mr. GREY: I might suggest, sir, that the very value of the Bank's operations in this department is simply that because it is a neutral international organization of which both India and Pakistan are very prominent members, it can make recommendations to the Governments of India and Pakistan, which I think would be quite unacceptable coming from a delegate of another government. Because it is an international neutral institution, which is profoundly respected because of the competence of its officials, it is able to intervene in this matter—which is a very contentious matter—in a way which would be impossible for, say, representatives of individual governments. I think this is probably the most current example of the way in which the International Bank can intervene. At the same time, it is giving much direct assistance by way of loans to projects in India and Pakistan, and they are among the countries that are most assisted. Because the Bank has established a reputation in those countries, it is able to intervene in this complicated matter.

Senator LAMBERT: Mr. Chairman, may I suggest to the witness that I do not think there is any need to justify the existence of the International Bank in this committee at this time, because the undertaking of the whole venture after the war by it in respect to worldwide reconstruction met with the complete endorsement of Canada, and also led to representation on the board, I think, by Canada. I am wondering just what the status is now of our representation there. What sort of representation have we on the board of the International Bank and the Monetary Fund? I believe Mr. Rasminsky, of the Bank of Canada, acts in the capacity of representing the interests of Canada?

Mr. GREY: That is correct, sir. I think questions about the mechanism of these two institutions might be directed to Mr. Plumptre, because he has been more directly associated with it. Our representation has always been drawn from the Department of Finance or the Bank of Canada.

Senator HORNER: Our representation is from whom?

Mr. GREY: From the Bank of Canada or from the Department of Finance.

The CHAIRMAN: I am going to suggest that when Mr. Plumptre speaks questions be directed to him instead of Mr. Grey. Is there something further, Mr. Grey?

Mr. GREY: No.

Senator HORNER: Perhaps we could know the total cost to Canada up to the present time since the agreement was entered into?

The CHAIRMAN: I think perhaps what you mean is Canada's contribution in capital.

Would you care to come forward, Mr. Plumptre, and address the committee?

A. F. W. PLUMPTRE (*Assistant Deputy Minister of Finance*): Mr. Chairman, would you like me to speak first to the question of representation raised by Senator Lambert?

Senator LAMBERT: Just to refresh our memories, perhaps you could give a bit of a background sketch of the way this has functioned from the start, because we should understand that this is not a philanthropic institution entirely; the Bank makes loans of money, and we get a report of the Bank every year, like we do from our own banks, and these loans are made with a great deal of scrutiny and with the idea of being reproductive. I think if we knew something of the character of the International Bank and the Monetary Fund from the beginning it would be very useful to us.

Senator REID: In your reply to Senator Lambert, you might add to your answer the question as to where China stands. I am speaking of Formosa. I would like to know who is paying their shot. Their trade does not amount to very much, and I should like to know something about that.

Mr. PLUMPTRE: On the question, first, of Canada's representation: Each of the two institutions has a Board of Governors which meets once a year, and a Board of Directors which meets frequently, and indeed is, formally speaking, in continuing session; it can meet at any time. Canada's representation on the two Boards of Governors has been from the beginning the Minister of Finance of the day. He has had alternates, and his alternate on the Fund has normally been the Governor of the Bank of Canada, and his alternate on the Bank has normally been a senior official of the Department of Finance. As executive director representing Canada, that is, on the directorates of both institutions, we have been represented since the beginning by Mr. Louis Rasminsky, who is now a Deputy Governor of the Bank of Canada. I am sorry he is not here today—it so happens that he is in Washington attending meetings of these very institutions. He moves back and forth between Ottawa and Washington to carry on Canada's day to day representations. In addition, he has an alternate executive director who has normally been drawn from the Department of Finance and who is resident in Washington. The present alternate director is Mr. C. L. Read, of the Department of Finance.

Senator LAMBERT: Who is the President of the Bank now?

Mr. PLUMPTRE: The President of the Bank is Mr. Eugene Black.

Senator REID: Can you tell me, Mr. Plumptre, why is China having her amount increased, why is Germany doing the same, and is the United States keeping up its own end?

Mr. PLUMPTRE: Mr. Senator, when the Bretton Woods Agreements were reached in 1944 it was anticipated that China would be one of the great powers of the world, and provision was made for the five countries with the largest subscriptions to these two institutions to nominate a director. China was represented at Bretton Woods by Chiang Kai-Shek's government; actually, the representative was a brother-in-law of Mr. Chiang Kai-Shek. And so she became one of the five countries with the largest subscriptions, therefore entitling her to appoint an executive director.

China has not had to, nor have any of us had to, put up a substantial sum of money year by year. There was an initial subscription back in 1945, which was paid from funds then available to the Chinese government, and since that time there has not been a necessity for current subscriptions.

I understand that in connection with the new changes in subscriptions to the two institutions, the Chinese will no longer be among the first five, because others are increasing their subscriptions more than China. I believe, though I cannot be sure of this because the necessary actions by governments have not yet been taken, that China will no longer, stay by the annual meeting of this year, be in a position to nominate a director.

Senator REID: I understand Germany has requested an increased quota, and that Formosa is also to be increased. Why should a country like Formosa raise its subscription when I understand it has no money?

Mr. PLUMPTRE: My understanding is China's quota is going up according to the general proportionate increase.

Senator REID: Did she ask for it?

Mr. PLUMPTRE: I can't answer that.

Senator REID: Did Germany ask for her increase?

Mr. PLUMPTRE: There was a general discussion, and there is a general increase in the subscriptions to both institutions, but in addition to that, for certain countries which have made very great economic strides in the past decade—including Germany, Japan and Canada—those countries are having their subscriptions increased more than in the general proportion. The Chinese increase is just in the general proportion. If you ask me, how is China going to find the necessary funds to subscribe under the proposed provision for increase, the answer is that I can't tell you.

Senator LAMBERT: With regard to China, is it not true that the situation is complicated by the fact that you have there two administrations, recognized by the United Nations, and the other not? Surely that is the key to the situation at the Bank, as well as everywhere else.

I would like to ask Mr. Plumptre if he can describe the capitalization of this Bank. I know they have bonds, and we hold some of them ourselves. As I understand it, they are not giving away anything with this increased capital. What they are doing, it seems to me, is the same as any company does when it wants more capital to meet increased demand for trading facilities. What is the capitalization of the International Bank?

Mr. PLUMPTRE: The total capitalization of the Bank before the increases that are now currently under discussion is \$9,553 million.

Senator BEAUBIEN: All in American dollars?

Mr. PLUMPTRE: It is denominated in American dollars; that is the yardstick. But the contributions are in various currencies, perhaps including our own; in fact, some of it was in Canadian dollars.

After the increases which are now under discussion, the total capitalization will be \$20,369 million.

Senator REID: May I ask a question apropos to what Mr. Plumptre has said? Does the Bank show a profit, and if so, what is the amount of the profits held by the Bank? My information is that between \$40 million and \$50 million are being held as profits.

My second question is, does Canada share in the profits, or has she shared in them up to now? No statement has ever been given to Parliament regarding that position, and I think it important we should know.

Mr. PLUMPTRE: Under the constitution or articles of agreement of the International Bank it must accumulate a certain reserve fund out of current earnings, and it may distribute profits. So far—and I think this is typical of a prudently managed financial institution in its early years—its earnings have been devoted entirely to the accumulation of reserves, and no distribution of profits has taken place. If a distribution of profits were to take place, the basis of distribution would be two-fold. In the first place, there would be a distribution based on the amount of the capital from various countries that the Bank had actually used. If it had called up and received certain capital from Canada and used it in the year in which the profit was being determined, and if some other country had not had any of its capital called up and used in that year, we would be eligible for a first share of the profits up to 2 per cent and the other country would not. If there was a further distribution

in that particular year, it would be a general distribution, according to capital subscriptions. In other words, the Bank's articles of agreement provide for the distribution of profits on what was regarded at the Bretton Woods Conference as a fair basis of division, partly on the basis of used capital and partly on general subscriptions.

Senator REID: If it is so that there is profit totalling \$50 million a year, and if its profits are kept in the special fund for distribution at some future date, will those profits be used to help smaller countries?

Mr. PLUMPTRE: The profits have been accumulating and are accumulating primarily in a special reserve fund on which the first call is made in case there are any losses on the Bank's loans. If and when that special reserve fund were all used up, then there might be a call on us and on others who have subscribed capital, partly in the form of guarantees, but this reserve fund which is being accumulated is in a sense a buffer between ourselves, the capital contributing or capital subscribing governments, and the risk of losses.

Senator LAMBERT: What would the extent of the bonds be that have been issued by the International Bank?

Mr. PLUMPTRE: If I recall correctly bonds were issued in Canada to the extent of some \$50 million. There were three issues. In addition to the capital subscribed by the Governments the Bank borrows in the money markets of the world and it has borrowed in the Canadian capital market to the extent of \$50 million.

Senator LAMBERT: Do you recall what the interest rates on these bonds are?

Mr. PLUMPTRE: I am sorry, sir. It was some years ago and I would not like to guess.

Senator LAMBERT: The bonds have been in existence now for some time?

Mr. PLUMPTRE: Oh, yes.

Senator LAMBERT: And there has never been any difficulty about them.

Mr. PLUMPTRE: No. They are regarded as first-rate prime bonds. The loans which are made out of these bonds are guaranteed by all governments including the United Kingdom, the United States, Canada, and so forth.

Senator REID: There is a question I would like to ask you arising out of something I mentioned in the Senate.

Mr. PLUMPTRE: Yes, I might anticipate your inquiry because I read what you had to say in the Senate, sir.

Senator REID: When did Russia and New Zealand withdraw from these institutions? I understand that they were members originally.

Mr. PLUMPTRE: Neither Russia nor New Zealand became members of the institutions. In other words they sent delegates to Bretton Woods and agreed in principle to the articles of agreement, but when their representatives went home, in neither case did the Government decide to move forward and become members, to pay subscriptions and become operating members. So neither one, sir, became an operating member.

Senator REID: Thank you. I appreciate the answer.

The CHAIRMAN: Are any of the so-called Russian satellite countries members of the Fund or contributors to the Bank?

Mr. PLUMPTRE: No, sir. Czechoslovakia, which at the time of Bretton Woods was certainly not thought of in terms of being a satellite of Russia, did become and was for a number of years a member of both institutions but it retired some years ago, I think about five years ago.

Senator HORNER: In the case of a country retiring, what becomes of the money they have put into the Fund?

Mr. PLUMPTRE: There are provisions in both institutions to cover that sort of thing, but I am afraid they are too technical in detail for me to recount from memory. The provisions for that eventuality were written into the agreements.

Senator HORNER: It was fully expected that Russia would be a member.

Mr. PLUMPTRE: Yes, sir.

Senator HORNER: But that has not happened?

Mr. PLUMPTRE: No.

Senator BRADETTE: In the balance sheet of the organization there are gains but also losses. Could you give us an idea of what losses might have occurred in some of the placements that were made by the Bank?

Mr. PLUMPTRE: The Bank has suffered no losses, sir. None of its loans have failed to be met, nor has the servicing on them failed to be met. It has to date a perfect record of lending.

Senator BRADETTE: That is a perfect record.

Mr. PLUMPTRE: Yes.

Senator LAMBERT: What is the total amount of loans?

Mr. PLUMPTRE: The total amount of loans the Bank has made is of the order of \$4.3 billion, and the total amount outstanding, if my memory serves me correctly, is about \$3.3 billion.

Senator BRADETTE: In the explanatory note, the second paragraph, reference is made to when the original legislation was passed, and so forth, and that the rate of exchange between the United States dollar and the Canadian dollar was fixed at \$1. At the present time the Canadian dollar is at a premium. Do we benefit by that or lose by it?

Mr. PLUMPTRE: In a sense we benefit, but any benefit might be transitory because what goes up may come down. In a formal balance sheet sense we are in a position to benefit, for from time to time settlements are made between the Canadian treasury and these two institutions, depending upon the valuation of our subscription as it goes up or down. So nominally, we are in a position of benefiting at the present time, but I would not put too much in that, sir.

Senator BRADETTE: Do you follow the market trend day to day?

Mr. PLUMPTRE: No, there is no regular procedure for settlement, but settlements have been made and will no doubt be made from time to time when it seems appropriate to the institutions and the Government.

Senator BRADETTE: What is the comparison of membership between the United Nations and the Bretton Woods Agreement? Is there a big discrepancy?

Mr. PLUMPTRE: A country cannot be a member of the Bank unless it is a member of the Fund. I think there are 68 members of the Fund, and they are all members of the Bank. I am virtually certain of that.

Senator LAMBERT: Do they coincide with the membership of the United Nations?

Mr. PLUMPTRE: No. It is a bit smaller than the United Nations membership, for the good reason that has been mentioned here that the U.S.S.R. and satellite countries are not members, and a number of other small countries too have not taken out membership. New Zealand is an interesting example of a country in good standing in most international organizations but which decided it was not in its own interest to join these two institutions.

Senator TURGEON: Was Poland once a member of the International Monetary Fund or the Bank?

Mr. PLUMPTRE: I do not think so, sir. I would not be certain from memory.

Senator TURGEON: It is not included in the list of members now.

Mr. PLUMPTRE: I don't think they have become a member.

Senator TURGEON: I understood that a Polish resident was at one time President of the Bank or of the International Monetary Fund.

Mr. PLUMPTRE: That a Polish resident was at one time what, sir?

Senator TURGEON: President of the Fund or of the Bank.

Mr. PLUMPTRE: No, sir. There have been Polish nationals or persons of Polish origin on the staff of the institutions, but that of course is true of the Canadian Government service. You have persons of various national origins in our service. I am pretty certain that at no time was the senior official of either institution of Polish origin.

Senator TURGEON: Thank you.

Senator REID: When the Bank was set up the then Minister of Finance, in outlining the whole Bretton Woods Agreement, said that the Fund would be used in purchasing goods and services in Canada. When I look over the trade of Canada I am wondering whether the countries who are taking Canadian dollars are really buying Canadian products as outlined by Mr. Ilsley in 1945.

Mr. PLUMPTRE: Mr. Senator, in regard to the Fund there has been a use of Canadian dollars on only one occasion, at which time arrangements were made to purchase Canadian wheat to the extent, if I recall correctly, of \$15 million on the basis of credits provided by the Fund. That is the only time at which our subscription has actively been used in the Fund. That was made about a year and a half or two years ago.

As far as the Bank is concerned, I must apologize. As I explained to you, Mr. Chairman, I only knew an hour before I came to this committee that I was coming, and I was not able to pull together all the information I had on the precise benefits to Canada from the operations of the institution. I can say in general terms that out of World Bank loans a substantial amount of purchases of Canadian goods and services have been made. My recollection is that this is of the order of \$100 million, but I would not like to be held to that; I would like to give you a report afterwards, sir, when I can get the files and I have been able to be sure of my details. It may be that the files which I have asked for will be coming to me here. I am sorry not to be able to answer that specifically at this moment.

Senator BRADETTE: Is the Bretton Woods agreement interested in the Aswan dam development in Egypt?

Mr. PLUMPTRE: You put your question, Mr. Senator, in the present tense "is", and the correct answer to that is no.

Senator BRADETTE: I mean, in a general way?

Mr. PLUMPTRE: If the question is, as I think you implied "has it been interested", the answer I think would run along these lines, that a few years ago a number of governments, particularly the governments of the United States, the United Kingdom, and also the International Bank, were interested in the possibility of constructing the Aswan dam, but, as you know, decision was made not to move forward, and since that time the matter has not been active as a loan proposition in the Bank.

Senator LAMBERT: Mr. Plumptre spoke of some data that might be available from his files. I think a memorandum of that information would be most valuable on *Hansard*, if that suggestion meets with the approval of the committee.

The CHAIRMAN: I think it is a good suggestion. Does the committee agree that it should appear as an appendix to the report of this meeting?

Agreed.

Senator LAMBERT: I would like to raise a point or two in connection with the equating of loans from the Bank to other countries. Is there a special unit of measurement or currency that the Bank regards as its instrument for calculating these loans? At the time when the Bretton Woods agreement came into existence there was in the first place the use of the word "Unitas", and at the moment I cannot recall the English term that Lord Keynes had in mind.

Mr. PLUMPTRE: "Bancor", Mr. Grey reminds me.

Senator LAMBERT: I believe "Unitas" was the American contribution. Have those units of measurement taken any form at all in the workings of the Bank?

Mr. PLUMPTRE: No, sir. When we met at Bretton Woods I think it became clear that rather than set up some abstract unit of measurement it was perhaps as wise to use one that was familiar to everybody and in common use, and so the U.S. dollar became the unit of measurement. I should emphasize, however, that that in no sense gives the dollar any priority; it is used as a measuring yardstick. It is rather as if the French and the English met together and were discussing problems regarding distance and could not decide whether to use a mile or a kilometer, and somebody said, "Let us have some new abstract measurement of distance", and in the end they decided not to use the abstract measurement of distance but went to the one or the other which was familiar.

Senator REID: With the great progress that Germany has made, having great quantities of gold, and her currency standing very high, I am wondering if she is using the Bank very extensively or not?

Mr. PLUMPTRE: She is in good standing and has made all the required contributions. In addition, reflecting the position which you have mentioned, Mr. Black, the president of the Bank, has been able to arrange with the German Government for a special additional supply of funds for use by the Bank. In other words, it has raised some special loans from the German authorities for use in the Bank.

Senator REID: Is the position of Japan just as good?

Mr. PLUMPTRE: Oh, no, sir. While Japan has made a lot of progress in general in its trade and development and production, it is not in the same position as Germany in regard to its balance of international payments. Japan still has a trade and balance of payments deficit, and needs to get assistance from other countries, particularly from the United States and from the World Bank from which they have raised a number of loans. On the other hand, the Germans are running a very large trade surplus in their current international transactions, and therefore they have a balance to lend abroad; and as I have indicated they are making part of that balance available to and through the World Bank.

The CHAIRMAN: I wonder if I may ask this question, Mr. Plumptre: I notice that these sums are referred to as subscriptions and there is no distinction in amount as between the International Monetary Fund and the International Bank of Reconstruction and Development. My question is this: Is there a certain part of this Fund, subscription, which goes to either one of those organizations? The second part of my question is whether this subscription becomes capital stock or whether our ownership is in the form of debentures or bonds, or what kind of security do we hold from the Bank?

Mr. PLUMPTRE: May I for convenience speak about the increases which are now in front of us, rather than the total? One can do either, but for convenience may I speak about the increases? As far as the Fund is concerned what we will need to increase our subscription is the equivalent of \$250 million in U.S. dollars.

Of the increase that is envisaged for the Fund, we will be paying, if Parliament approves, \$62.5 million in gold and \$187.5 million in non-interest bearing notes, the total adding up to \$250 million, U.S. dollars. So, our subscription to the Fund breaks down into one-quarter of the total in gold and three-quarters of the total in non-interest bearing notes.

As far as the Bank is concerned, the increase in our subscription totals \$425 million. Of that we will pay \$1 million in gold, and we will be putting up as non-interest bearing notes, but in the form of capital which the Bank might well ask us for if they could use, an amount of \$9 million. This is in Canadian non-interest bearing notes, and it is not unlikely to be requested for release at some time over the years immediately ahead. The remainder, \$415 million, is simply a guarantee. As I said some time ago, the various governments are guarantors of the loans that are made, and some 80 per cent of the total capital of the Bank is not called up, but exists simply as guarantees in case of loss.

I mentioned that there have been no losses so far. So the Bank, as one sees it, is in a very strong position. A very large proportion of our additional subscription to the Bank—\$415 million out of \$425 million—is simply in case of loss.

Senator BEAUBIEN: Of course the Bank can call on these loans at any time they need to?

Mr. PLUMPTRE: If I may go through the three items one by one, senator: we must pay up the \$1 million in gold. As far as the \$9 million non-interest bearing note is concerned, the bank can ask, but we can refuse; the final decision is on our side, not on the Bank's side, as to release. As to the \$415 million guarantee, we would be obligated to pay it on a pro rata basis in case of loss.

Senator BRADETTE: Mr. Plumptre, you do not need to answer this question if you do not choose to. I have read on several occasions, and no doubt other senators have, some accusations of conservatism, as far as the Bank is concerned with respect to the lending of money and so on. Some of the criticism has been very sharp. Do you care to make a brief comment on that?

Mr. PLUMPTRE: Yes, I can try. I think it is generally true that no Bank is universally beloved by those who would like to borrow from it; and it would have been past belief if the World Bank were universally beloved and applauded, not only by those countries who have succeeded in getting loans, but also by those who have not received what they would like to have received.

The criticisms of the bank have, I am sure, diminished with the passage of time. The Bank, wisely, in my opinion, began slowly and conservatively, but it has been making loans much more rapidly and liberally in recent years. It is now running at a rate of some three-quarters of a billion dollars a year, which is a substantial sum of money to loan out safely, and the curve still goes upwards.

The criticisms of the Bank have not only included suggestions that there are times when the Bank ought to have lent more than it did, but also that it should have lent at a lower interest rate. In particular, for instance, the criticism has been made that the special reserve fund to which I have already referred, should not accumulate on the basis of a charge of 1 per cent, which is the present rate of every loan, but might perhaps accumulate on the basis of three-quarters of 1 per cent or one-half of 1 per cent, so that the aggregate charge of the Bank to the borrowing country would be a half or a quarter of 1 per cent less.

This has been under discussion at the last two meetings and perhaps more, of the Bank's Board of Governors. But, I think it has been clear from the general response that the criticisms have been rather few and scattered, and that the general sense of the Governors is that for the time being it is prudent to continue the present rates.

Senator LAMBERT: Is the total rate 6 per cent now?

Mr. PLUMPTRE: No. The rate depends upon the rate at which the Bank itself can borrow, plus 1 per cent, plus a service charge of about a half of 1 per cent, which the Bank uses to cover its own operations.

This means that the government of an under-developed country, with perhaps a rather weak credit position, can borrow at a rate reflecting guarantees by the government of the United States, the United Kingdom, Canada and all these other countries, plus $1\frac{1}{2}$ per cent. That is a pretty good rate for the very weak governments to be able to borrow at.

Senator LAMBERT: But is not the rate of the Bank on loans roughly 6 per cent?

Mr. PLUMPTRE: No, it varies up and down. It is around 6 per cent now, but it varies with the market rates of interest at which the Bank itself can borrow in New York, Toronto, Montreal, The Hague, London, or wherever it does its borrowing.

Senator REID: Is there a time limit on the loans?

Mr. PLUMPTRE: There is none laid down by the constitution, but of course there is a limit on each loan. I am not able to say from memory what the average term of loan would be, but they are essentially long-term loans. They are meant to build up capital equipment for economic development.

Senator LAMBERT: That is, monetary Fund?

Mr. PLUMPTRE: No, the Bank. The Bank makes medium and long-term loans; the Fund is designed to provide short-term accommodation.

Senator REID: Have the borrowing countries met their obligations each year?

Mr. PLUMPTRE: As far as the Bank is concerned the record is perfect. The Fund, I think, has on one or two occasions extended the term as an accommodation to certain countries.

Senator HORNER: In other words, a great part of the loans is still outstanding, and when you say it is in perfect shape you mean in regard to interest payments?

Mr. PLUMPTRE: That is right, interest and capital repayments.

Senator HORNER: If part of it is not recovered then the guarantee would be used by the various countries?

Mr. PLUMPTRE: The reserves would be used first and then, if necessary, the guarantee.

Senator MACDONALD (*Queens*): First of all I should apologize. I was a little late coming in this morning; but there is a section here I do not quite understand. I will read it aloud first.

1. Section 5 of the *Bretton Woods Agreements Act* is repealed and the following substituted therefor:

5. "The Minister of Finance may provide for the payment out of the Consolidated Revenue Fund to the International Monetary Fund and to the International Bank for Reconstruction and Development in the manner and at

the times provided for by the Agreement therefor set out in the Schedules, of a sum or sums of money, not exceeding in the whole an amount equivalent to the subscriptions required from Canada, that is to say, thirteen hundred million United States dollars."

I am wondering whether that is spread over a number of years. What is meant by that section?

Mr. PLUMPTRE: This section would empower the Government to make immediate payments, sir. The section is worded so as to embrace the existing subscriptions and the additional amounts.

Senator MACDONALD (*Queens*): You mean to say to the extent of \$1,300 million?

Mr. PLUMPTRE: The \$1,300 million covers the total subscription to both institutions.

Senator MACDONALD (*Queens*): Spread over how many years?

Mr. PLUMPTRE: Well, we paid part of it back in 1945 or 1946, and we will presumably, if Parliament approves, pay the additional amounts in the current year. Excuse me. I used the word "pay" which is, of course, misleading. I should have said that it includes the increase of the guarantee. It includes the non-interest bearing notes. The actual payments involved are payments in gold, to which I have referred and which I anticipate, if Parliament agrees to this Act, would come out of our existing gold reserves. It would involve the transfer of, shall I say, from our existing gold reserves of \$62.5 million to the Fund and \$1 million to the Bank. Does that clear it up?

Senator MACDONALD (*Queens*): Yes, thank you.

Mr. PLUMPTRE: May I refer you to the Senate Debates of June 11? The figures are there in tabular form.

The CHAIRMAN: Mr. Plumptre, in regard to the transfer of gold, is that a physical transfer or a bookkeeping entry?

Mr. PLUMPTRE: No, that would be a physical transfer.

The CHAIRMAN: From Canada to Washington?

Mr. PLUMPTRE: Yes, Mr. Chairman.

The CHAIRMAN: There is another question I would like to ask while we are on that section—

Mr. PLUMPTRE: Excuse me, sir, but may I just interrupt to say that technically speaking I do not know whether the gold would end up in Washington or New York, but that would be at the discretion of the institutions.

Senator LAMBERT: In Tennessee, I hope.

The CHAIRMAN: There is a phrase here that I find hard to understand. It says, "...an amount equivalent to the subscriptions required from Canada..." Who makes that decision? Is that a decision to be made by the Fund or the Bank? I was wondering about the use of the word "required".

Mr. PLUMPTRE: I am not a legal draftsman, but this is done under the terms of an international agreement of which Canada is a member.

The CHAIRMAN: One more question: Are relative increases in subscriptions being made by other countries such as the United States and the United Kingdom?

Mr. PLUMPTRE: Yes, in a measure. There are, as I believe I mentioned before, two types of increases in subscriptions under consideration at the present time. First there is a general increase in subscriptions, to the Fund of 50 per cent and to the Bank of 100 per cent. In addition to that, particular

countries whose economic progress has gone well beyond the average in the past decade will contribute beyond those general increases. Canada is one of the countries which, having made particular economic progress, are going beyond the general increase.

Senator LAMBERT: The second paragraph of the explanatory note refers to the increasing gap between the Canadian dollar and the American dollar and the exchange rates. I suppose it is only logical to assume that some of this increase in our capital subscription will be due to that fact? At least, that is the implication I take from it, but the main reason for the increase is simply a demand for more capital to meet the demands of business of the Bank?

Mr. PLUMPTRE: That is right, sir.

Senator LAMBERT: So you can estimate it at 5 per cent, say, in connection with the increased premiums of the Canadian dollar over the American dollar and arrive at the proper position?

Mr. PLUMPTRE: Actually, sir, looking at the formalities and the nominal amounts, it works even in the opposite sense. It was considered expedient, when the first Bretton Woods Act was passed, to denominate the Canadian subscription in Canadian dollars. To do so, it was decided at that time to ask Parliament for a substantial, shall we say, "cushion" over and above what was immediately required, in order to look after possible fluctuations in the value of the U.S. dollar in terms of the Canadian dollar. As a matter of fact, a 12 per cent cushion was put in. Parliament was asked for more than was needed at that moment by an amount of 12 per cent to look after possible movements in the Canadian dollar up to a possible 12 per cent.

Senator LAMBERT: The Canadian dollar was at a discount with the American dollar at that time.

Mr. PLUMPTRE: No, at that time it was at par and this would have allowed the Canadian dollar to go down to 88. There was that much leeway given.

Senator LAMBERT: I see.

Mr. PLUMPTRE: It would have been possible to draw the legislation in the same form this time, but a difficulty arose, and now I am speaking rather frankly. Whereas, at that former time, the Canadian dollar had been moved by 10 per cent one way or the other, actually since that time the Canadian dollar has become free to move, and it was difficult to know what amount to suggest by way of a cushion. Should it be 10 per cent, 12 per cent, 20 per cent? And it would have been difficult to defend any particular percentage in this committee because it would have been quite arbitrary. So it seemed expedient on this occasion, because of the experience with the Canadian dollar and the fact that it is not fixed in price, this time to denominate the Canadian subscription in U.S. dollars, which measures what we are required to pay.

Senator LAMBERT: So that actually if our dollar was calculated in terms of \$105 in American funds, it means just five dollars less?

Mr. PLUMPTRE: That is right, sir.

Senator LAMBERT: Than the total amount that appears here?

Mr. PLUMPTRE: That is right, sir.

Senator BRADETTE: I believe it is true that with regard to certain undertakings by nations of the world that come under this agreement you have men in the field looking after that work in the interests of the Bank, and that your records show that?

Mr. PLUMPTRE: Yes, sir, that is always the case. The Bank has its own experts, and it is always accustomed to employ consulting engineers of the most expert character familiar with the particular countries where loans are being made or being considered.

Senator LAMBERT: They actually supervise the undertaking?

Mr. PLUMPTRE: Yes; they supervise work—progress payments, and so on.

The CHAIRMAN: In regard to section 2, and considering the fact that our present contribution is being made in gold, is it necessary for the Governor in Council to borrow now for the purposes of this bill?

Mr. PLUMPTRE: No, sir; there will be no immediate borrowing requirements. As I have said, the only actual payments immediately to be made are those in gold.

The CHAIRMAN: But I notice that section 2, which is a re-enactment of section 6 of the original bill, authorizes the Governor in Council to borrow.

Mr. PLUMPTRE: That is right, sir, under various eventualities. One of those eventualities is that the World Bank will come and tell us that they want to use this new \$9 million we are putting up in non-interest bearing notes, to get real money to spend in Canada for loan projects. That might be the situation in which they might be. The Government would need to obtain funds; and they are empowered under this section to obtain those funds. Again, in the eventuality that the Bank ran into losses very heavily and the guarantees were called upon, the Government would need to find the money, and this section makes provision for it.

Senator BEAUBIEN: Would they have power under this bill, if money was needed, to take it out of the Consolidated Revenue Fund or to make new borrowings?

Mr. PLUMPTRE: I think the answer is both, sir, they could take it out of the fund or borrow it.

Senator REID: Would you care to comment on the statement that has been made to the effect that if the United States Government decided to raise the price of gold it would involve bond issues and short term securities in Canada?

Mr. PLUMPTRE: I do not think it relates to the act that is under consideration now, sir. I rather hesitate to comment on it. I do not think it has relevance to the present act, sir.

The CHAIRMAN: I have one question to ask. In regard to the \$1 million of gold we are now subscribing to the capital of the Bank, is that a subscription to capital for which we get capital stock?

Mr. PLUMPTRE: Yes, sir.

The CHAIRMAN: What is the nature of the security issued by the Bank to the subscriber?

Mr. PLUMPTRE: I am embarrassed to say I don't know, sir; but I will find out.

Senator REID: Can you explain why Canada's increase is higher than the general increase?

Mr. PLUMPTRE: Well, really I cannot do more than repeat or elaborate upon what I have said before. Canada's economic development has been more rapid than most countries and far more rapid than many countries in the past decade. At Bretton Woods the quotas and subscriptions were assigned to all the various countries who were considering membership, and Canada was put down for certain amounts. These quotas or subscriptions were broadly speaking based upon a number of economic measures, which included national income, trade, gold reserves, and so forth, and two or three other economic measures.

Well, against all those units of measurement Canada has gone up, Germany has gone up, Japan has gone up, and a number of countries, including some South American countries, have also gone up, and it seems reasonable that there should be a general realignment, shall we say, of the quotas at this time of the general increase. Does that answer your question?

Senator LAMBERT: I should like to ask if the assessment of contributions levied on members of the United Nations have varied. I know we were supposed to be contributing about 3.25 per cent at one time toward the total cost of running the United Nations, while the share of the United States was about a third of the total, and I think Russia's was below us. That of course is in relation to the United Nations organization, but I think the same principle applies here.

Mr. PLUMPTRE: I believe I am right, and Mr. Grey may be able to correct me if I am wrong, that year by year, or at any rate at frequent intervals, the contributions of member governments to the United Nations and to most of the specialized agencies are reviewed to bring them up to date in relation to current economic circumstances.

Senator LAMBERT: Am I right in saying that the basis of contribution is pretty largely on a per capita basis in relation to our gross national production?

Mr. PLUMPTRE: The basic approach is on the basis of national income, but it is modified in relation to the wealth per capita, yes, sir.

Senator HORNER: Might I ask, Mr. Chairman, what would be the consequences if this additional money were refused?

Mr. PLUMPTRE: Well, this is a Government bill and if Parliament fails to approve it there would be certain important repercussions at home as well as abroad.

The CHAIRMAN: Honourable senators, are there any more questions or are we now ready to consider the sections of the bill?

Senator LAMBERT: Mr. Chairman, I move that the bill be adopted.

The CHAIRMAN: What is your pleasure, honourable senators?

Carried.

The CHAIRMAN: On behalf of all the senators who are here, and myself, I want to express our very great thanks to all of you gentlemen for being with us and dealing with this matter as thoroughly as you have done.

The committee adjourned.

APPENDIX

EQUIPMENT EXPORTED BY CANADIAN FIRMS UNDER WORLD BANK FINANCING

Type of Equipment	Cumulative Totals Through June 30, 1958 (Thousands of U.S. Dollars)
Electric power equipment	38,875
Railroad equipment	55,162
Shipping equipment	6,887
Aeronautical equipment	46
Timber, woodworking and paper making equipment	2,910
Agricultural equipment	3,203
Raw materials	374
Highway transportation equipment	10,562
Food processing equipment	25
Irrigation equipment	6
Transport equipment	2,030
Industrial equipment	109

REPORT OF THE COMMITTEE

FRIDAY, June 19, 1959.

The Standing Committee on External Relations to whom was referred the Bill (C-52), intituled: "An Act to amend the Bretton Woods Agreements Act", have in obedience to the order of reference of June 16, 1959, examined the said Bill and now report the same without any amendment.

All which is respectfully submitted.

G. S. THORVALDSON,
Chairman.

